INDEX

CITATIONS

Cases:

	Page
Ansul Co. v. *Uniroyal, Inc.*, 448 F. 2d 872, certiorari denied 404 U.S. 1018	5
Blonder-Tongue Labs., Inc. v. *University Foundation*, 402 U.S. 313	7
Boys Markets, Inc. v. *Retail Clerks Union*, 398 U.S. 235	7
Federal Trade Commission v. *Dean Foods Co.*, 384 U.S. 597	7
Ford Motor Co. v. *United States*, 405 U.S. 562	9
Helvering v. *Hallock*, 309 U.S. 106	7
Hurn v. *Oursler*, 289 U.S. 238	6
International Salt Co. v. *United States*, 332 U.S. 392	5, 10
Lear, Inc. v. *Adkins*, 395 U.S. 653	7
Morton Salt Co. v. *G. S. Suppiger Co.*, 314 U.S. 488	4, 5
Scripps-Howard Radio, Inc. v. *Federal Communications Commission*	7
Transwrap Corp. v. *Stokes Co.*, 329 U.S. 637	4
United States v. *Aluminum Co.*, 148 F. 2d 416	10
United States v. *Bell Telephone Co.*, 167 U.S. 224	6, 7
United States v. *Bethlehem Steel Corp.*, 168 F. Supp. 576	10
United States v. *United States Gypsum Co.*, 333 U.S. 364	2, 6
United States v. *Webb, Inc.*, 397 U.S. 179	7
Zenith Corp. v. *Hazeltine*, 395 U.S. 100	4

Statute:

Sherman Act, 26 Stat. 209, as amended	4, 5
Section 1, 15 U.S.C. 1	6
Section 4, 15 U.S.C. 4	6, 7

487-670—72

In the Supreme Court of the United States

OCTOBER TERM, 1972

No. 71-666

UNITED STATES OF AMERICA, APPELLANT

v.

GLAXO GROUP LIMITED, AND IMPERIAL CHEMICAL INDUSTRIES, LIMITED

ON APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

REPLY BRIEF FOR THE UNITED STATES

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1. Glaxo contends (Br. 12–14) that because in the district court the government asserted that the Attorney General has general authority to challenge the validity of any patient, it is precluded from arguing in this Court the narrower theory which it now asserts: that in an antitrust case it may challenge the validity of a patent involved in the antitrust violation, even though the defendants do not rely on the patent as a defense. Since the government argued both positions below,[1] there is no factual basis for the conten-

[1] For example, before the lower court the government not only argued the Attorney General's inherent authority to vindicate

487-669—72

tion. In any event, the fact that the government asserts the narrower legal position comprehended within its argument in the lower court did not prejudice the appellees.

Because the question whether the Attorney General may challenge a patent in the circumstances here present is solely one of law, Glaxo was not misled or induced to refrain from introducing any evidence it might have otherwise presented. Glaxo makes no claim or showing that the government's assertion of the narrower legal position here prejudiced it in any way, and could not do so. The government's presentation of the issue in this Court on the narrower legal theory reflects the fact that there is no necessity for this Court to decide the broader issue here, even though a substantial basis exists for that broader ground. (See opening Br., p. 43.)

2. Both appellees challenge the government's argument that the griseofulvin patents were involved in the antitrust violations found.[2] They assert that the only violation that the district court found was an

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the public policy favoring invalidation of specious patents (Tr. January 23, 1969, pp. 153–157 (not printed), which appellee stresses, but also stated: "In our view, Gypsum should be understood more broadly to support a challenge to any patent used by antitrust defendants" in carrying out the violation (*id.* at 158). Similarly, the government's brief below asserted standing to challenge patents "used by antitrust defendants in furtherance of their illegal program" (App. 271).

[2] Appellees contend that because they did not raise their patents as a defense to the antitrust violations alleged, the patents became legally and factually irrelevant to this case. Therefore, they argue, under *Gypsum*, the validity of the patents cannot be challenged, and they are not subject to compulsory licensing at reasonable royalty in order to remedy

illegal prohibition upon sales of griseofulvin in bulk, and that that violation had no relation to the patents but was merely an illegal provision in a distribution agreement.

The fact is, however, that the patents were the foundation upon which the illegal restraints rested. Each of the agreements containing the bulk sales limitation gave the American distributors of Glaxo and ICI a license under the griseofulvin patents, and each distributor was required to pay a royalty for its right to sell the patented product, based upon a percentage of its total sales of the drug which it had purchased in bulk from the appellees (App. 99–100, 102, 130–131, 132–132a). The two Glaxo licenses, to Johnson & Johnson and Schering, were for 17 years or until the expiration of the patents licensed (App. 103–104, 118). Both appellees, in their replies to the government's interrogatories, recognized that these agreements were patent licenses,[3] and the licensees paid substantial royalties thereunder (App. 47, 62).

The patent-pooling agreement between Glaxo and ICI provided that the latter would attempt to prevent its licensees from selling griseofulvin in bulk (App. 132–132a). ICI stated that the pooling of its and the Glaxo patents was necessary because "[w]ith-

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the effects of the violations. But, as we show in the text, *infra*, where the patents have been directly involved in the violations, they cannot be placed beyond the reach of the antitrust court by the simple tactic of not invoking them as a defense.

[3] See, *e.g.*, App. 57, 59, 69. ICI stated (App. 48), however, that it "does not consider the bulk sale restriction attacked by the Government in this proceeding as part of a Griseofulvin license, but as part of the distributorship agreement between it and American."

out obtaining rights under Imperial's U.S. patent on dosage form griseofulvin, no other U.S. concern could enter the U.S. market for that product. Accordingly, for Glaxo to be able to export bulk Griseofulvin to the United States, it had to assure its U.S. purchasers that they would acquire the rights to use Imperial's U.S. dosage form Griseofulvin patent" (App. 57).

The patent licenses were thus a key element in the appellees' system for the distribution of griseofulvin in the United States. The bulk sales limitation was an important factor in enabling the appellees to achieve the kind of restricted-access American market for the drug that they wanted.

The appellees' argument basically comes down to the contention that patents cannot be said to be involved in an antitrust violation unless the violation itself involves a misuse of the patents. The patent-misuse doctrine, however, is invoked when a licensee who is sued for infringement or royalties seeks to avoid liability on the ground that the patentee's anticompetitive conduct bars it from asserting its patent rights. In these circumstances, equity will refuse its aid to a patentee who has used the economic power of its patent to achieve anticompetitive ends, even though the misuse falls short of a violation of the Sherman Act. See *Zenith Corp.* v. *Hazeltine*, 395 U.S. 100, 135–136, 140; *Transwrap Corp.* v. *Stokes Co.*, 329 U.S. 637, 641; *Morton Salt Co.* v. *G. S. Suppiger Co.*, 314 U.S. 488, 490. As we have argued in our main brief (pp. 29–30), it would be paradoxical to give the Attorney General, who is charged with enforc-

ing the public interest, narrower authority to challenge patents involved in antitrust violations than a licensee has in private litigation.

The proper standard, we submit, is that if the economic power of the patent has enabled the patentee to impose the illegal restraints found, the patent is sufficiently "involved" with the antitrust violation to be subject to challenge in the government antitrust suit. All that is required is that the patent itself, or its economic leverage, has been instrumental in the violation. The involvement is clear when the illegal restraint is contained in the patent license itself. Compare *Morton Salt Co.* v. *G. S. Suppiger Co.*, 314 U.S. 488 (infringement suit), with *International Salt Co.* v. *United States*, 332 U.S. 392 (government antitrust suit). But it is also true in other circumstances. For example, in *Ansul Co.* v. *Uniroyal, Inc.*, 448 F. 2d 872 (C.A. 2), certiorari denied, 404 U.S. 1018, a firm with a method patent on a chemical sold the product subject to illegal restraints on alienation. In a suit against an infringer, it argued that it was not guilty of "patent misuse" barring it from enforcing its patent because it had sold, rather than licensed, its product. The court of appeals rejected this distinction, holding that the economic power of the patent had enabled the firm to impose the restraints and therefore its enforcement was barred. The government here seeks the same kind of relief in the context of its Sherman Act suit.

3. ICI asserts (Br. 21–22) that the real issue is not whether the government has "standing" to challenge

patents, but whether the courts have jurisdiction to entertain such challenges. This Court in *United States* v. *United States Gypsum Co.*, 333 U.S. 364, 367, recognized, however, that the government could challenge in an antitrust suit the validity of patents asserted as a defense in such suits; the necessary predicate of that holding was that the district court had "jurisdiction" to decide the issue. The Court explicitly rejected the reasoning of the district court that permitting such challenge to the patents in the antitrust litigation "would constitute a review of action by the Commissioner of Patents, which was not recognized by statute" (*id.* at 387). Indeed, the Court characterized *Bell III* (*United States* v. *Bell Telephone Co.*, 167 U.S. 224), as holding that the United States was "without standing" to bring an equity suit to cancel a patent for invalidity (*United States* v. *United States Gypsum Co.*, *supra*, 333 U.S. at 387), not that the courts lacked jurisdiction.

The government here properly invoked Section 4 of the Sherman Act in its challenge to the appellees' violations of Section 1 thereof. Once that jurisdiction is properly invoked, the district court has authority to adjudicate claims that are ancillary to those in the Sherman Act suit, even though its jurisdiction could not have been invoked under that section solely to raise the patent issue. Under the doctrine of pendent jurisdiction, a federal district court whose jurisdiction has been properly invoked may determine state claims that are asserted together with the federal claims, even though the federal claims have been rejected. *Hurn* v. *Oursler*, 289 U.S. 238. *A fortiori*, a district court whose jurisdiction has been properly invoked

under Section 4 of the Sherman Act has jurisdiction to determine the federal claim that the patents involved in the antitrust violation that it has found are invalid.

4. Appellees contend that the failure of Congress to amend the patent laws specifically to permit the government to challenge patents related to antitrust violations reflects a congressional intent to adopt the rule of *Bell III*. Congress, however, has never undertaken to deal with this problem, although it has been suggested that it should do so. In these circumstances, no inference that Congress intended to approve *Bell III* can properly be drawn from its silence. See, *e.g.*, *Boys Markets, Inc.* v. *Retail Clerks Union*, 398 U.S. 235, 241–242; *Federal Trade Commission* v. *Dean Foods Co.*, 384 U.S. 597, 609–610; *United States* v. *Webb, Inc.*, 397 U.S. 179, 194 n. 21; *Scripps-Howard Radio, Inc.* v. *Federal Communications Commission* 316 U.S. 4, 11; *Helvering* v. *Hallock*, 309 U.S. 106, 120. Accord, *Blonder-Tongue Labs, Inc.* v. *University Foundation*, 402 U.S. 313; *Lear, Inc.* v. *Adkins*, 395 U.S. 653.

5. The government argued in its main brief (pp. 52–53) that the present non-competitive character of the griseofulvin market in the United States requires, in order to make it competitive, that the appellees be ordered to sell the drug in bulk and to grant patent licenses at reasonable royalties. Glaxo replies (Br. 28) that this relief is inappropriate because the district court found that "[t]he evidence did not show that a current monopoly condition exists as a result of the bulk resale restriction" (J.S. 68).

If this finding is that there is no current monopoly condition in the market, it is erroneous. The appellees'

three licensees have more than 98 percent of that market and, as we have shown in our main brief (pp. 45-46), there is no real competition there. Moreover, whether or not the market be viewed as having a "monopoly condition," it is a non-competitive market which, as we explained in our main brief (pp. 47-48), shows little likelihood of changing merely as a result of the cancellation of and prohibition against the bulk sales restrictions.

If, on the other hand, the finding is that there is a current monopoly condition in the market, but that the appellees' illegal restraints did not cause it, then we submit, for the reasons given in our main brief (p. 53), that this conclusion, too, is erroneous. As we there argued, it is impossible to determine what the market structure would have been had there not been the illegal restraints. The uncontradicted facts are that the restraints have been in existence for a number of years and that firms other than the three licensees have unsuccessfully attempted to obtain griseofulvin in bulk. The inference is inescapable, we submit, that the illegal restraints contributed materially to, if they were not largely responsible for, the present non-competitive character of the griseofulvin market. Only the additional relief which the government is seeking holds out any promise of remedying this situation.

Glaxo states (Br. 29–31) that adequate relief requires only that the violation be corrected by restoring the *status quo,* and that the relief ordered by the district court accomplishes that objective. Effective relief,

however, requires more than that. As this Court explained in *Ford Motor Co.* v. *United States*, 405 U.S. 562, 578, the relief should nurture the forces of competition in order to eliminate the effects of the violations, even though the result is to restrict the exercise of otherwise permissible rights. In the *Ford* case, restoring competition to the market required that Ford temporarily be prevented from manufacturing its own spark plugs under its own name; in the present case it is necessary for a time to prevent the defendants from exercising their ordinary right to refuse to sell and to refuse to grant licenses under their patents.

Unless compulsory licensing under the Glaxo and ICI patents is ordered, it will be extremely difficult for other firms to make a significant entry into the American griseofulvin market. Any firm that purchases regular-size, unpatented griseofulvin (whether from ICI or anyone else) and pulverizes it into the commercially significant microsize form of the drug, will infringe Glaxo's microsize patent; so, too, will anyone who directly manufactures microsize griseofulvin. Any firm that sells griseofulvin pills, in regular or microsize form, will infringe ICI's pill patent. Therefore, any new entrant would need to secure licenses from the defendants under these two patents, unless the bulk sale of griseofulvin by the appellees implicitly also constituted a license under the patents (see ICI brief, p. 19, n. 19). Even with respect to that possibility, a purchaser from one appellee might have patent problems unless he obtained a license from the other.

Mandatory licensing also is required so that the two appellees will not remain the only possible sources of the drug to which new competitors can apply (see App. 348, ¶4; App. 249–258, 430, 435 (difficulties of maintaining supply); cf. *United States* v. *Aluminum Co.*, 148 F. 2d 416, 436–438 (C.A. 2) ("price squeeze"). *United States* v. *Bethlehem Steel Corp.*, 168 F. Supp. 576, 612–613 (S.D.N.Y.) (same)).[4]

CONCLUSION

For the reasons stated in the government's main brief and in this reply brief, the portions of the judgment of the district court that refused to permit the United States to challenge the validity of the patents and to order mandatory sales and licensing should be reversed, and the case remanded to the district court for further proceedings.

Respectfully submitted.

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[4] Appellees err in their contention that when a *per se* violation has been found in a summary judgment proceeding, relief which does more than enjoin the violation is inappropriate. This court has sustained compulsory licensing on a summary judgment record in connection with a *per se* tie-in violation. *International Salt Co.* v. *United States*, 332 U.S. 392, 398, n. 7.

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